

charged with the cost of such construction. Property constructed from contributions of cash or its equivalent must be shown as a reduction to gross property constructed when assembling cost data for posting to property ledgers of accounts. The accumulated gross costs of property must be recorded as a debit in the plant ledger of accounts along with the related amount of contributions concurrently recorded as a credit.

§ 367.51 Components of construction.

(a) For service companies, the cost of construction properly included in the service company property accounts must include, where applicable, the direct and overhead costs as listed and defined as follows:

(1) Contract work includes amounts paid for work performed under contract by other companies, firms, or individuals, costs incident to the award of such contracts, and the inspection of the work.

(2) Labor includes the pay and expenses of employees of the service company engaged in construction work, and related workmen's compensation insurance, payroll taxes and similar items of expense. It does not include the pay and expenses of employees that are distributed to construction through clearing accounts nor the pay and expenses included in other items in this section.

(3)(i) Materials and supplies includes the purchase price at the point of free delivery plus customs duties, excise taxes, the cost of inspection, loading and transportation, the related stores expenses, and the cost of fabricated materials from the service company's shop. In determining the cost of materials and supplies used for construction, proper allowance must be made for unused materials and supplies, for materials recovered from temporary structures used in performing the work involved, and for discounts allowed and realized in the purchase of materials and supplies.

(ii) The cost of individual items of equipment of small value (for example, \$500 or less) or of short life, including small portable tools and implements, must not be charged to service company property accounts unless the cor-

rectness of the accounting is verified by current inventories. The cost must be charged to the appropriate operating expense or clearing accounts, according to the use of the items, or, if the items are consumed directly in construction work, the cost must be included as part of the cost of the construction.

(4) Transportation includes the cost of transporting employees, materials and supplies, tools, purchased equipment, and other work equipment (when not under own power) to and from points of construction. It includes amounts paid to others as well as the cost of operating the service company's own transportation equipment. (See paragraph (a)(5) of this section.)

(5) Special machine service includes the cost of labor (optional), materials and supplies, depreciation, and other expenses incurred in the maintenance, operation and use of special machines, such as steam shovels, pile drivers, derricks, ditchers, scrapers, material unloaders, and other labor saving machines; also expenditures for rental, maintenance and operation of machines of others. It does not include the cost of small tools and other individual items of small value or short life which are included in the cost of materials and supplies. (See paragraph (a)(3) of this section.) When a particular construction job requires the use for an extended period of time of special machines, transportation or other equipment, the associated net book cost, less the appraised or salvage value at time of release from the job, must be included in the cost of construction.

(6) Shop service includes the proportion of the expense of the service company's shop department assignable to construction work except that the cost of fabricated materials from the service company's shop must be included in materials and supplies.

(7) Protection includes the cost of protecting the service company's property from fire or other casualties and the cost of preventing damages to others, or to the property of others, including payments for discovery or extinguishment of fires, cost of apprehending and prosecuting incendiaries, related witness fees, amounts paid to

municipalities and others for fire protection, and other analogous items of expenditures in connection with construction work.

(8) Injuries and damages includes expenditures or losses in connection with construction work on account of injuries to persons and damages to the property of others; also the cost of investigation of, and defense against, actions for the injuries and damages. Insurance recovered or recoverable on account of compensation paid for injuries to persons incident to construction must be credited to the account or accounts to which such compensation is charged. Insurance recovered or recoverable on account of property damages incident to construction must be credited to the account or accounts charged with the cost of the damages.

(9) Privileges and permits includes payments for and expenses incurred in securing temporary privileges, permits or rights in connection with construction work, such as for the use of private or public property, streets, or highways, but it does not include rents.

(10) Rents include amounts paid for the use of construction quarters and office space occupied by construction forces and amounts properly includible in construction costs for the facilities jointly used.

(11) Engineering and supervision includes the portion of the pay and expenses of engineers, surveyors, draftsmen, inspectors, superintendents and their assistants applicable to construction work.

(12) General administration capitalized includes the portion of the pay and expenses of the general officers and administrative and general expenses applicable to construction work.

(13) Engineering services includes amounts paid to other companies, firms, or individuals engaged by the service company to plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in connection with construction work.

(14) Insurance includes premiums paid or amounts provided or reserved as self-insurance for the protection against loss and damages in connection with construction, by fire or other casualty injuries to or death of persons other than employees, damages to

property of others, defalcation of employees and agents, and the non-performance of contractual obligations of others. It does not include workmen's compensation or similar insurance on employees included as labor in paragraph (a)(2) of this section.

(15) Law expenditures includes the general law expenditures incurred in connection with construction and the directly related court and legal costs, other than law expenses included in protection in paragraph (a)(7) of this section, and in injuries and damages in paragraph (a)(8) of this section.

(16) Taxes include taxes on physical property (including land) during the period of construction and other taxes properly includible in construction costs before the facilities become available for service.

(17) Interest cost on funds used during construction which are allowed to be capitalized following generally accepted accounting principles.

(18) *Earnings and expenses during construction.* The earnings and expenses during construction must constitute a component of construction costs.

(19) *Training costs.* When it is necessary that employees be trained to operate or maintain property that is being constructed and the property is not conventional in nature, or is new to the company's operations, these costs may be capitalized as a component of construction cost. Once property is placed in service, the capitalization of training costs must cease and subsequent training costs must be expensed. (See Operating Expense Instructions in § 367.83.)

(20) Studies include the costs of studies such as safety or environmental studies mandated by regulatory bodies relative to property under construction. Studies relative to facilities in service must be charged to account 183, Preliminary survey and investigation charges (§ 367.1830).

(21) *Asset retirement costs.* The costs recognized as a result of asset retirement obligations incurred during the construction and testing of service company property must constitute a component of construction costs.

(b) [Reserved]